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SUSTAINABLE DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION:
TRADE AND DEVELOPMENT

Letter dated 2 November 1995 from the Chargé d'affaires a.i.
of the Permanent Mission of Yugoslavia to the United Nations
addressed to the Secretary-General

I have the honour to transmit, enclosed herewith, information from the Government of the Federal Republic of Yugoslavia on the consequences of the United Nations sanctions for the economic and foreign trade situation of the Federal Republic of Yugoslavia.

I should be grateful if you would have the present letter and its annex circulated as an official document of the General Assembly under agenda item 95 (a).

(Signed) Vladislav JOVANOVIC
Chargé d'affaires a.i.

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Annex

CONSEQUENCES OF THE UNITED NATIONS SANCTIONS FOR THE ECONOMIC AND FOREIGN TRADE SITUATION OF THE FEDERAL REPUBLIC OF YUGOSLAVIA

The sanctions established by the international community against the Federal Republic of Yugoslavia have caused enormous damage in all spheres of its economic and social life, whose consequences will be felt for a very long time to come even after the sanctions have been lifted. Yugoslavia's economic relations with the outside world, primarily its foreign trade exchange, have borne the brunt of the sanctions, not least because the European Community, traditionally Yugoslavia's largest foreign trade partner, had already introduced negative economic measures against Yugoslavia in November 1991. Security Council resolutions 757 (30 May 1992), 787 (1992) and 820 (1993) established economic sanctions which have been subsequently stiffened and extended. The partial suspension of sanctions in the field of air and sea passenger traffic, cultural exchange and sports by the adoption of Security Council resolution 943 (1994) and extended by Security Council resolutions 970 (1995), 988 (1995) and 1015 (1995) has brought almost no improvement in the economic situation of the Federal Republic of Yugoslavia or, by extension, in other social activities, such as health services, education and protection of children and the elderly, the development of which is in direct correlation with the development of basic economic activities.

Ever since the imposition of the United Nations sanctions on the Federal Republic of Yugoslavia, the social product, as the most important indicator of the overall situation of an economy, has been registering a drastic fall compared with the period before the imposition of sanctions. In 1991 the social product fell by 8.2 per cent compared with 1990 and by 28.2 per cent in 1992, while in 1993 the slide continued to 27.7 per cent. In 1994 Yugoslavia registered a growth of social product of 6.5 per cent compared to 1993, whereas that growth for 1995 is forecast at about 6 per cent. This economic growth has been achieved with no foreign assistance or loans and with many difficulties brought about by the sealing-off of the economy of Yugoslavia. However, bearing in mind the fact that the economic growth in 1994 was achieved in relation to the low starting basis from 1993, its economic importance is relative, especially so if viewed against all years from 1966 until today. The 1994 social product fell to the 1967 level. Primarily because of the unjust sanctions, the social product and industrial production fell by 50.6 per cent in the period 1990-1994, so that Yugoslavia has turned from a developing country with a per capita social product of US$ 2,580 in 1990 into a low-income developing country whose per capita social product has fallen below US$ 1,200.

It is estimated that in normal conditions in the period 1991-1994 at least the 1990 social product of US$ 26.6 billion could have been achieved. With the estimated possible annual growth rates for the coming period, the 1990 social product could be achieved in 2011. The difference between the possible social product amounting to US$ 26.6 billion and the social product in the period 1991-1994, as well as the estimated figure for the period 1995-2011, is the loss on the basis of the unrealized social product.

The estimated measurable loss on the basis of the unrealized social product, as well as of the unrealized net inflow of invisible transactions with foreign countries, and on the basis of the additional costs of the increased number of unemployed persons and refugees is US$ 147.3 billion for the entire 1991-2011 period - US$ 45.1 billion for the period 1991-1994 and US$ 102.2 billion for the period 1995-2011.

The devastating consequences of the economic blockade have been most drastically reflected in hyperinflation, which in January 1994 stood at 313 million per cent. At the end of January 1994, the Government of the Federal Republic of Yugoslavia introduced a programme for the reconstruction of the monetary system and a strategy for economic recovery. The programme has had positive results, reflected primarily in the curbing of inflation, moderate growth of production and social product, reduction of budget deficits at all levels and the stabilization of the dinar. A year and a half has elapsed since the beginning of the implementation of the programme of economic recovery and the situation in the external environment remains unchanged. The Federal Republic of Yugoslavia continues to be shackled by the sanctions, it is still beset by all the problems of a closed country, unable to use financial assets frozen in foreign banks and to apply for foreign loans and assistance to shore up the programme for its monetary recovery. Add to this the fact that Yugoslavia has 1,200,000 pensioners, 760,000 unemployed, about 700,000 seemingly employed and 650,000 refugees, it is only logical that no economic programme can be realized without foreign aid. The unemployment rate in 1990 was 19.7 per cent and subsequently increased to 21.4 per cent in 1991, 22.8 per cent in 1992 and 33.1 per cent in 1993, retaining that level in 1994. In the first seven months of 1995, the unemployment rate was higher by 6.4 per cent than the 1994 average. The percentage of refugees in the total population of Yugoslavia is higher than 6.2 per cent.

The Yugoslav economy is experiencing stagflation and production is falling; in September 1995 inflation stood at 10.2 per cent, which means that it will probably reach the 100 per cent mark for the year.

In addition to the serious negative effects which the sanctions have had in the most sensitive fields, such as health services, social protection and education, it could be said that they have inflicted the greatest damage to Yugoslavia's business transactions with foreign countries. Prior to the imposition of the Security Council sanctions, Yugoslavia had achieved a high level of integration in world economic flows, while because of its open and complex cooperation, it had become dependent in great measure on its economic relations with the outside world. Over 60 per cent of the GNP of the Federal Republic of Yugoslavia was accounted for by its trade exchange with the world or the former republics of the Socialist Federal Republic of Yugoslavia. The dependence was reflected both in foreign trade exchange a/ and in industrial cooperation through a whole series of licensing rights, co-production and joint ventures, scientific and technical cooperation, and service and financial transactions.

The economic blockade brought about the loss of the markets of Yugoslavia's most important trade partners in the European Union and the Organisation for Economic Cooperation and Development, the countries of Central and Eastern

Europe and the developing countries. The loss of the markets was triggered by the unilateral cancellation of the trade agreement between the Socialist Federal Republic of Yugoslavia and the European Community and its accompanying protocols (financial, trade and textile) with the subsequent exclusion of Yugoslavia from the list of beneficiaries of the generalized system of preferences. This was followed by the unilateral suspension of Yugoslavia's activities in international organizations (United Nations, International Monetary Fund, World Bank, etc.), multilateral (World Trade Organization, General Agreement on Tariffs and Trade, World Intellectual Property Organization, etc.) and bilateral agreements in the field of foreign trade exchange, as well as other forms of economic and financial cooperation. Exclusion from world flows and the export embargo resulted in grave consequences for the functioning and development of export-import oriented sectors, while the import embargo paralysed the work of import-dependent companies in the Federal Republic of Yugoslavia.

In 1990, the last relatively stable year for the Yugoslav economy, the overall worth of Yugoslav exports was US$ 5,712.5 million, while the overall worth of Yugoslav imports was US$ 7,264.1 million. Developed Western countries accounted for 50 per cent, countries of Central and Eastern Europe for 40 per cent and the developing countries for about 10 per cent of Yugoslavia's overall foreign trade exchange. Since June 1992 (more precisely, since November 1991 when the European Union imposed restrictive measures on Yugoslavia), this exceptionally important trade exchange with the world has unfortunately been reduced to a minimum, reflected only in the insignificant import of humanitarian goods (food and medicine).

The economic embargo on the Federal Republic of Yugoslavia has caused a number of chain disruptions throughout the entire economy, reflected primarily in the following:

- A continual decrease in the productivity and performance of the Yugoslav economy;

- A large number of import-dependent company closures, which resulted in mass unemployment, due to the import ban on raw and reproduction materials and energy;

- Import substitution by domestic products, especially the substitution of reproduction materials at a higher cost as a rule, and a rise in the prices of domestic products above those of foreign-made ones;

- The drastic superannuation of fixed assets due to disinvestment and the ban on new and modern equipment purchases;

- A remarkable reduction in the import of widely consumed goods, their sale at very high prices on the Yugoslav market and the indirect impact leading to price rises in the same domestic products;

- Negative effects on agriculture, despite the fact that it has an exclusively humanitarian character and should be exempted from the embargo. The ban on the import of know-how, reproduction material and the achievements of the "green revolution" has brought about a

stagnation in Yugoslav agriculture and sometimes even a full blockage of agricultural works due to the lack of fuel procured from export before the sanctions;

- The emergence of monopolies due to the foreign economic blockade and the imposition of sanctions, which has resulted in a rise of the prices of monopolized products, frequent shortages of some goods and, by extension, in price rises in a whole range of other goods and services;

- An enormous fall in the quality of goods and services caused by the lack of imported quality raw materials and the orientation of producers to cheap products of poor quality primarily because of the drastic impoverishment of the population;

- A considerable deceleration in the process of modernizing the existing production capacities and technology through the introduction of new patents, due to a lack of incentive and the survival economies practised, as it were, by most research and development institutions, especially in the economic sphere, and a virtual exodus of researchers out of the country, so that a wide gap has been created with respect to competition;

- A substantial deceleration in the modernization of the economic infrastructure of Yugoslavia, which in some segments has come to a complete standstill;

- Retardation of the streamlining of the economic system of the country through the full implementation of market instruments, and increased State intervention. The market economy system has been preserved none the less.

In addition to industry, the sanctions have had enormous negative effects on all other economic fields. A great reduction of economic activities in the Federal Republic of Yugoslavia and increased uncertainty and risks have had a negative impact on investments, which has resulted in a decreased share of investments in social product. Gross investments have decreased at higher rates than social product. Gross investments in fixed and working capital in 1993 were 62.1 per cent lower than in 1990.

Although individual tourist trips have not been covered by the sanctions, foreign tourists' visits have plummeted to only 5 per cent of those registered in 1990, relieving Yugoslavia of considerable hard currency proceeds. This has been brought about primarily by the interruption of traffic with the Federal Republic of Yugoslavia and the impossibility of promoting Yugoslav tourist offers abroad. The Yugoslav tourist industry has been very negatively influenced also by slanderous and mendacious smear campaigns conducted against Yugoslavia by the foreign information media. All of these have led to the cancellation of much of the investment already committed to the Yugoslav tourist industry, a lower quality of service, erosion of infrastructure and the loss of jobs. Yugoslavia's membership in the World Tourism Organization has been suspended, as well as all its bilateral agreements. Yugoslavia has been denied

access to tourist information and, by the same token, it has been prevented from competing fairly on the world tourist market.

From December 1988 when a new liberal law on foreign investment was adopted in the Socialist Federal Republic of Yugoslavia until the imposition of the sanctions of the international community, the republics of Serbia and Montenegro were important recipients of foreign direct investment. Foreign persons were enabled to establish their own or mixed companies with Yugoslav partners in Yugoslavia and to freely conclude agreements on joint ventures. Prior to the introduction of sanctions, foreign investment was rising so that by April 1991 foreign persons had established 347 companies with the overall capital of DM 142.6 million and 1,153 mixed companies with foreign capital of DM 938.3 million and had concluded 228 joint venture agreements with foreign capital of DM 400 million. However, after the introduction of sanctions, most contracts were frozen, while no new investment has been forthcoming since the Federal Republic of Yugoslavia was placed among the high-risk countries and as such considered unsuitable for investment. The economic blockade has deprived Yugoslavia of new technologies, equipment, know-how and experience, which accounted for a considerable part of foreign investment. A great number of joint investments have been stopped, which has caused enormous damage and losses not only to the Yugoslav economy, but to foreign partners as well.

Bearing in mind the said circumstances, the unfair and unjust sanctions have caused unforeseeable consequences for the overall economic relations of the Federal Republic of Yugoslavia with the outside world. Unless the sanctions are lifted and Yugoslavia is included in the flow of international goods and capital soon, the Yugoslav economy and population will suffer irreparable damage. In the long run, the continued implementation of the unfair and unjust sanctions against the Federal Republic of Yugoslavia is a threat to the stable development of the Balkans and Europe as a whole. Because of enormous losses in the region of south-east Europe and beyond, many representatives of the affected countries have requested that the sanctions on the Federal Republic of Yugoslavia be lifted. That sanctions on Yugoslavia must be lifted in full and for good, besides the fact that there is no reason whatsoever for their continuation, is borne out also by the economic logic of the interdependence of national economies, as well as by the ongoing integrative processes in Europe, the aim of which is the building of a stable prospective, competitive and secure Europe.

Notes

a/ For 100 final production units in the Federal Republic of Yugoslavia it is necessary to spend 42.8 input units from domestic production, 10.3 from foreign imports and 12.1 from production originating in the republics of the former Socialist Federal Republic of Yugoslavia. In the production or reproduction consumption of some production sectors, procurement from other republics accounted for 44.7 per cent in metallurgy, 30.8 per cent in transport vehicle production and shipbuilding, 32.8 per cent in the electrical industry and 31.5 per cent in the paper industry. The data indicating the linkage between production and import in the Federal Republic of Yugoslavia are even

more dramatic: ferrous and non-ferrous metallurgy, machine and electrical industries and chemical, food and leather industries exported more than 40 per cent of production.